



**CONFIDENTIAL**~~CONFIDENTIAL/CONTROL - U.S. OFFICIALS ONLY~~

25X1

CENTRAL INTELLIGENCE AGENCY

- 2 -

of the national economy, has lost the support of industrial labor.

4. The North China peasantry provided the mass basis for the post-war Communist Army. Through the war years and immediately thereafter, the peasant of northern China staunchly supported the CCP and aided it to the best of his ability. For the past year, discontent with the CCP has been growing in the North China countryside. The main causes are heavy, confiscatory grain taxes, failure of the Army to return North China conscripts to their homes and failure of the Government to furnish constructive aid in famine areas. Anti-Communist guerrilla activity, spontaneous, unorganized and sporadic, is beginning to appear in the North, even in areas which have been under Communist control for as long as a decade.
5. In southern and eastern China, the peasants generally oppose Communist land reforms and high taxation. In these areas land reforms have been mismanaged. CCP men, in redistributing land, have dispossessed many small and middle landowners through lack of knowledge of the conditions of land tenure in the areas. The land tax in South China is generally assessed with little regard for the capability of the landowners to pay, and is uniformly exorbitant. In these areas the standard of living of the peasant is declining sharply. The peasant's response to this treatment is to oppose local control with guerrilla warfare. Guerrilla movements, spontaneous and uncoordinated, are widespread throughout south and east China and the influence of the CCP in the countryside depends entirely on military force.
6. On the five-starred flag of the People's Government, the bourgeoisie and the intellectuals share one star. Although the Communists continue to appear to make great efforts to win over these groups, the Communists really regard them with vast mistrust. The Chinese bourgeoisie have their economic main base in small business, the rental of real property and the practice of various professions. The CCP is seeking to destroy these bases. Small business is being taxed out of existence. Real property, very heavily taxed, is almost impossible to rent since purchasing power is generally declining; its owners are forced to sell it at distress prices, generally to government officials, who are almost alone in the ability to make such purchases. Property owners are told that they must work to eat, but have great difficulty in finding jobs. The income of the average professional man is declining. Few persons in this class can satisfy the authorities as to their political reliability to the point where they can find remunerative employment.
7. The intellectual class is having increasing difficulty finding employment, and there is a marked decline in the number of such persons in responsible positions. All intellectuals must, of course, pass through indoctrination courses, but this does not guarantee a job. Intellectuals employed by the CCP during the early stages of the occupation of China are gradually being displaced. Some of them are totally unemployed, while others have been assigned to minor tasks in out of the way places. It is only the very young intellectual, who has completed his regular schooling in Communist controlled schools, who can be at all sure of a career.
8. In the earlier stages of the occupation, the CCP had the cooperation of many in the "national capitalist" group, who sought to save their holdings. All such persons are now aware of the fact that the Communists are seizing their enterprises, mainly by extortionate taxation, as fast as possible. This process has gone further in Manchuria and North China than elsewhere in the country; it has recently been accelerated in Shanghai. The Communists regard Shanghai as the base of "international capitalism" in China, and the participation of the native Shanghai capitalists in international capitalism as fixed and irrevocable. For this reason, and because of plans to move Shanghai's industry to militarily defensible areas in the Northwest and Manchuria, the CCP intends to reduce Shanghai to the status of a trading port. Unlike the peasant, the capitalist is resigned to his fate, and sees no way out of his predicament.

**CONFIDENTIAL**~~CONFIDENTIAL/CONTROL - U.S. OFFICIALS ONLY~~